



C O N T E N T S

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To the Board of Directors
and Stockholders of
U. S. Scrap Corp.

We have examined the balance sheet of U. S. Scrap Corp. as of December 31, 1972, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of major inadequacies in the company's accounting records for the preceding year, it was not practical to extend our auditing procedures sufficiently to enable us to express an opinion on the statements of income, retained earnings and changes in financial position for the year ended December 31, 1972.

In our opinion, subject to our comments in the preceding paragraph, the accompanying balance sheet presents fairly the financial position of the U. S. Scrap Corp. as of December 31, 1972, in conformity with generally accepted accounting principles.

April 27, 1973

A handwritten signature in cursive script, appearing to read "James Coccalas".

U. S. SCRAP CORP.

BALANCE SHEET

DECEMBER 31, 1972

ASSETS

Current assets:

Cash	\$ 5,139.24
Accounts receivable (see note)	93,432.53
Inventory (see note)	1.00
Prepaid insurance	19,468.00
Deposits	2,022.55
Total current assets	<u>\$ 120,063.32</u>

Property, at cost, less accumulated depreciation
(see note)

\$ 288,685.00

\$ 408,748.32

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable - current maturities (see note)	\$ 112,982.61
Accounts payable and accrued liabilities	75,810.94
Advances due to stockholder	18,669.47
Federal and state income taxes	1,674.92
Total current liabilities	<u>\$ 209,137.94</u>

Long term debt (see note)

\$ 71,932.95

Deferred income taxes (see note)

\$ 14,486.26

Stockholders' equity:

Common stock, without par value, 100,000 shares authorized; 2500 shares issued	\$ 25,000.00
Retained earnings	88,191.17
	<u>\$ 113,191.17</u>
	<u>\$ 408,748.32</u>

The accompanying notes are an integral part of this statement.

U. S. SCRAP CORP.

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR YEAR ENDED DECEMBER 31, 1972

Income:	
Chemical hauling	\$ 542,556.69
Sale of drums and scrap	17,493.60
Miscellaneous income	991.42
Total	<u>\$ 561,041.71</u>
Costs and expenses:	
Purchase of scrap	\$ 9,290.25
Wages	171,595.76
Commissions and sub-contract	11,952.19
Automotive expense	109,309.78
Repairs and plant maintenance	10,083.14
Facilities rent	16,275.00
Equipment rent	31,948.45
Advertising expense	10,825.30
Supplies and office expense	5,855.53
Professional fees	9,853.27
Insurance	17,553.00
Organization dues and subscriptions	168.98
Travel and entertainment	3,387.57
Telephone and utilities	10,584.36
Union and other employee benefits	4,416.70
Taxes - other than income taxes	13,023.50
Interest expense	7,312.46
Depreciation expense	41,882.07
Dump fees	23,355.50
Total	<u>\$ 508,672.81</u>
Income before taxes on income	52,368.90
Provision for taxes on income (see note)	<u>8,536.28</u>
Net income	\$ 43,832.62
Retained earnings at beginning of year	<u>44,358.55</u>
Retained earnings at end of year	<u>\$ 88,191.17</u>

The accompanying notes are an integral part of this statement.

U. S. SCRAP CORP.

STATEMENT OF CHANGES IN FINANCIAL POSITION

DECEMBER 31, 1972

Working capital provided by:

Operations:

Net income	\$ 43,832.62
Expenses not requiring outlay of working capital:	
Depreciation expense	41,882.07
Deferred income taxes	<u>6,861.36</u>
Total from operations	92,576.05
Sale of fixed assets	8,187.50
Increase in long-term debt	<u>40,755.08</u>
	<u>\$ 141,518.63</u>

Working capital used for:

Additions to furniture and equipment, automotive equipment and leasehold improvements	<u>\$ 214,927.25</u>
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Decrease in working capital	<u>\$ 73,408.62</u>
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Changes in components of working capital:

Increase in current assets:

Cash	\$ 2,399.83
Accounts receivable	42,480.92
Inventory	1.00
Prepaid expense	<u>15,840.55</u>
	<u>\$ 60,722.30</u>

Increase in current liabilities:

Accounts payable	\$ 30,835.07
Accrued expense	6,227.71
Loans to stockholders	7,114.67
Current portion of long-term debt	<u>89,953.47</u>
	<u>\$ 134,130.92</u>

Decrease in working capital	<u>\$ 73,408.62</u>
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The accompanying notes are an integral part of this statement.

U. S. SCRAP CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1972

Summary of significant accounting policies

Inventory - In connection with the company's operations, various metal drums and metal scrap are accumulated and subsequently sold. As of December 31, 1972, the company maintained an inventory of drums and scrap which was assigned a value of \$1.00. Due to inadequate records, we were unable to ascertain the value of this inventory. The metal drums are obtained at no cost through their chemical hauling operations.

Property - Fixed assets are carried at cost. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from disposition, is reflected in earnings.

Depreciation - Property is depreciated over its estimated life using the straight line method.

Deferred income taxes - Tax benefits resulting from allowable deductions taken on the company's income tax returns for depreciation in excess of the straight line method are shown as deferred.

Investment tax credits - Investment tax credits are accounted for on the "flow through" method, which recognizes the benefit in the year in which the assets which gave rise to the credit are placed in service. This is consistent with the treatment for income tax purposes.

Accounts receivable

The company's accounts receivable, aggregating \$93,432.53 are pledged to a bank under a security agreement dated 10/31/72. The related note payable amounted to \$30,000.00 as of December 31, 1972.

Property

The amount at which the furniture and equipment, auto equipment and leasehold improvements are stated represent cost after accumulated depreciation. Provisions for depreciation have been calculated at rates to amortize the properties within estimated useful lives using the straight line method.

The property and respective accumulations of depreciation are as follows:

Furniture and equipment	\$ 44,299.69
Automotive equipment	298,861.67
Leasehold improvements	2,750.50
	<u>\$ 345,911.86</u>
Less accumulated depreciation	57,226.86
	<u>\$ 288,685.00</u>

U. S. SCRAP CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1972

Substantially, all of the company's property is pledged to banks and creditors under various security agreements. The related notes payable amounted to \$154,915.56 as of December 31, 1972.

Notes payable and long term debt

The amount owed on notes payable and long term debt along with current maturities as of December 31, 1972 is scheduled below.

	<u>Total</u>	<u>Current Maturities</u>	<u>Long Term Debt</u>
Riverdale Bank	\$ 78,000.43	\$ 61,000.43	\$ 17,000.00
General Motors Acceptance Corp.	8,932.98	4,577.76	4,355.22
Mack Financial Corp.	90,171.54	35,155.44	55,016.10
Thorp Commercial Corp.	<u>32,659.90</u>	<u>25,923.37</u>	<u>6,736.53</u>
	209,764.85	126,657.00	83,107.85
Less prepaid interest	<u>24,849.29</u>	<u>13,674.39</u>	<u>11,174.90</u>
Total	<u>\$ 184,915.56</u>	<u>\$ 112,982.61</u>	<u>\$ 71,932.95</u>

Subsequent to December 31, 1972, the company incurred additional debt of approximately \$295,000 including prepaid interest, for purchase of new equipment. Taking into consideration the additional debt noted above, payments due on notes payable, including interest charges, during the succeeding year is approximately \$240,000.

The company has also informed us that it has commitments to purchase additional new equipment of \$200,000 of which a major portion thereof will be financed through security agreements during 1973.

Lease agreements

The company occupies the office premise under a month-to-month lease agreement which provides for a monthly rental of \$200.00.

In addition, the company leases land under lease agreements which provide for an annual rental of \$15,200.00.

Acquisitions

On April 23, 1973, the company purchased a metal drum washing and painting business for \$11,000 in cash. The assets included automotive equipment, metal drums and scrap metals, and drum washing and painting facilities.